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April 29, 2005

Senator Connie Mack  
Senator John Breaux  
The President's Advisory Panel on Federal Tax Reform  
1440 New York Avenue, N.W., Suite 2100  
Washington, DC 20220

Dear Senators Mack and Breaux:

The Retail Industry Leaders Association (RILA) represents the nation's most successful and innovative retailer and supplier companies – the leaders of the retail industry. Retail is the second largest industry in the U.S., representing \$3.8 trillion in annual sales and 12 percent of our nation's workforce. RILA member retailers and suppliers operate 100,000 stores, manufacturing facilities and distribution centers throughout every congressional district in every state, as well as internationally. As the deadline for submission of proposals for tax reform draws near, I respectfully submit the attached documents for your consideration.

Attached please find RILA's advocacy briefs on fundamental tax reform and the national sales tax. I am hopeful that the ideas and principles contained in them will be of use to the panel as you craft tax reform proposals within the President's guidelines. I look forward to participating further in the process and look forward to the panel's recommendations late this summer.

Sincerely,

Sandra L. Kennedy

## **Tax Reform**

### **Position**

RILA supports tax policies that spur economic growth by lowering income tax rates and other proposals to help taxpayers keep more of what they earn for savings, investment and spending. RILA also supports tax policies that will improve the business climate for retailers by helping them to continue to create jobs and bring price competitive value to American consumers. A national retail sales tax should be opposed as part of tax reform. Policymakers should give full consideration to the views of RILA's membership in formulating tax reform policies.

### **Background**

Many policymakers contend that the current federal tax system is overly complex and in dire need of reform. The last major overhaul of the system occurred in 1986 with the enactment of legislation that compressed 15 individual income tax brackets down to 2, and eliminated several corporate tax breaks. Since that time, Congress has expanded the individual brackets to six and many tax breaks have been reinstated. In the 108<sup>th</sup> Congress, RILA strongly supported tax relief measures signed into law, including extension of marriage penalty tax relief, the \$1,000 per child tax credit, and the expanded 10% income tax bracket.

### **Policy Rationale**

- Tax reform should focus on helping Americans keep more of what they earn for savings investment and consumption. The least disruptive way to do this is to make permanent the tax relief provisions enacted in the 107<sup>th</sup> and 108<sup>th</sup> Congresses. Permanency of the tax cuts will remove the uncertainty families and businesses confront when making tax and financial plans.
- Income tax rate reductions and other tax relief measures enacted in the 108<sup>th</sup> Congress had a positive impact on the economy, helping millions of Americans increase savings and make purchases of needed consumer products. This provided a major stimulus to the economy and improved retail sales over the last several quarters.
- Across-the-board changes to the federal tax code – such as a national retail sales tax or other consumption tax -- would be immensely disruptive to the economy, likely leading to severe economic slowdown.
- Tax reform should include provisions that support the retail industry, helping it to grow, create jobs opportunities and provide consumers with quality merchandise at good prices. Retail is vital to the economy, representing the second largest industry in the U.S., with 12 percent of the nation's total workforce and \$3.8 trillion in annual sales.
- RILA members must have meaningful input and a "seat at the table" during the tax reform debate. Any major tax reform initiative will have significant impact on retail businesses, their employees and their customers. They pay billions in federal, state and local income taxes and collect and remit billions more in state sales taxes. They are intimately familiar with our nation's system of taxation and would have a great deal to offer to any deliberations on tax reform.

### **Status**

Fundamental reform of the tax code is a top priority for President Bush's second term. The President's Advisory Panel on Federal Tax Reform was formed in January 2005 and will make recommendations to the Secretary of Treasury on July 31. The commission plans several hearings to review a variety of tax reform proposals. RILA has formally asked the commission to take testimony from its membership, but the request has not yet been honored. It is not clear when Congress will begin consideration of tax reform, but in its February 17, 2005 "views and estimates" letter, the House Ways and Means Committee indicated it would examine options for reform and simplification, including proposals for permanent tax relief.

### **Action Needed**

Congress should:

- Oppose legislation to enact a national retail sales tax.
- Make permanent the tax cuts enacted in President Bush's first term
- Approve legislation to accelerate depreciation of retail improvements
- Pass legislation to help retailers hire economically disadvantaged individuals through Work Opportunity Tax Credit/Welfare to Work other tax credits and deductions
- Extend state and local sales tax deduction
- Promote fair competition between remote sellers and retailers by pass legislation giving states the authorization to require remote sellers to collect sales and use tax.
- Congress and the President's Advisory panel should hold thorough hearings that include RILA members.

***For more information, contact Paul Kelly, Senior Vice President, Federal and State Government Affairs or Shannon Campagna, Vice President, Government Affairs.***

## **National Retail Sales Tax**

### **Position**

RILA is opposed to the adoption of a national retail sales tax. A national sales tax would drive up retail prices for consumers, have a devastating effect on the retail sector of the economy, and create excessive administrative burdens for retailers administering a sales tax program.

### **Background**

Some policymakers and academicians support replacing the current income tax system with a national retail sales tax. They argue that a sales tax is fairer than the current income tax system, will give Americans more incentive to save, simplify federal taxation, reduce the cost of tax filing compliance and lower the cost of goods and services.

### **Policy Rationale for RILA's Position**

- Experts believe that a 25-30 percent sales tax rate would be needed to offset the costs of moving from an income tax system to a consumption-based system. This would have a significantly depressing effect on retail sales, putting the cost of many basic commodities and other items out of reach for millions of Americans.
- Retail represents the second largest industry in the U.S., with \$3.8 trillion in annual sales and 12 percent of the workforce. A national sales tax could have a devastating impact on this important sector of our national economy.
- Increased sales taxes hurt low- and middle-income consumers the most, since they spend a higher percentage of their income on basic necessities such as clothing, household products, food, and other items sold by RILA members. Such a regressive tax would be unfair and politically unpopular.
- There is little public support for a national sales tax. Only 19% of surveyed adults said they would prefer a national sales tax when asked to choose between it, a flat tax or the current tax system. Thirty-seven percent supported the flat tax, while 19% said they would stick with the status quo. (*Harris Interactive survey of 2013 adults from March 31 to April 1, 2005.*)
- Many national sales tax advocates wish to repeal the current income tax system to eliminate the possibility of having a sales tax layered on top of the current federal income tax. Repeal of the income tax would require amending the United States Constitution. Given the difficulty and infrequency of a Constitutional amendment, the possibility of both a national sales tax existing along with the federal income tax seems altogether possible.
- State and local governments already apply sales taxes to many goods and services. A national sales tax would simply add to the tax burden consumers are already asked to shoulder by these jurisdictions.
- A national sales tax of any amount, whether it is in lieu of or in addition to a federal income tax, would create significant administrative burdens for RILA members who would be responsible for collecting and remitting the tax to the federal treasury.

### **Status**

Representative John Linder (R-GA) has introduced H.R. 25 to replace the federal income tax with a national sales tax. The bill currently has 29 cosponsors and has been referred to the House Ways and Means Committee, of which Rep. Linder is a member. Senator Saxby Chambliss (R-GA) has introduced a companion measure, S. 25, which has been referred to the Senate Finance Committee.

The President's Advisory Panel on Federal Tax Reform was formed in January 2005 to make recommendations on fundamental reform of the tax system. The commission, which will report to the President on July 31, 2005, has held several hearings to review a variety of tax reform proposals, including a national retail sales tax. Some witnesses – including Federal Reserve Chairman Alan Greenspan -- have testified to the panel in favor of a national sales tax, while others have expressed deep concerns. Congress is expected to begin hearings and consideration of tax reform proposals in 2005.

### **Action Needed**

RILA urges members of Congress to oppose national retail sales tax legislation, and asks that they not cosponsor the Linder/Chambliss legislation. Any tax reform legislation considered by Congress this session should be developed with the full input of RILA member companies.

***For more information, contact Shannon Campagna, Vice President, Government Affairs or Paul T. Kelly, Senior Vice President, Federal and State Government Affairs***